

# Arts & Crafts Businesses & New Jersey Sales Tax

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## Introduction

Whether you sell products from your own shop, at flea markets, craft shows, by mail or from your home, you are doing business in New Jersey and must comply with the State's tax laws. New Jersey law requires all vendors, even seasonal businesses, to register with the State for tax purposes at least 15 business days before starting business. To register, a **Business Registration Application (Form NJ-REG)** must be filed. You will receive a **New Jersey Certificate of Authority (Form CA-1)** for sales tax if you have indicated on your application that you will collect sales tax or purchase materials for resale. This certificate is your authorization from the State of New Jersey to collect sales tax and to issue or accept exemption certificates and it must be displayed at your business location at all times. A Public Records Filing may also be required depending upon the type of business ownership. For more information on Public Records Filing call 609-292-9292.

## Sales

New Jersey imposes a 6% tax on the retail sale of most merchandise sold within this State (one exception is clothing). Arts and crafts business owners registered in New Jersey who sell taxable items must collect sales tax and remit it to New Jersey.

**Retail Sales.** You must collect sales tax on all taxable items sold if the retail customer (end user) or someone acting for him picks up the merchandise in New Jersey or asks you to ship it to a New Jersey address, even if the items are later shipped out-of-State. *Exception:* Delivery to a package shipper or freight company located in New Jersey who will in turn ship the item out-of-State. Items shipped to a destination outside New Jersey are generally not subject to New Jersey sales tax. For more information, request publication ANJ-10, *Out-of-State Sales & New Jersey Sales Tax*.

**Other Businesses.** If another registered vendor buys your product for *resale*, he is not considered to be the end user and no tax is due provided the purchaser gives you a valid **New Jersey Resale Certificate (Form ST-3)**. If the vendor does not issue a resale certificate, you *must* collect sales tax.

**Qualified Out-of State Vendors.** Qualified out-of-State vendors may make tax exempt purchases in New Jersey of goods and services purchased for resale. When the qualified out-of-State vendor carries the goods away with him from the point of sale, or sends his own vehicle or messenger to pick them up in New Jersey, the only acceptable resale certificate for a qualified out-of-State vendor to use is the **Resale Certificate for Non-New Jersey Vendors (Form ST-3NR)**. The ST-3NR requires the person picking up the merchandise to provide acceptable identification (i.e., driver's license of any state in the United States, major credit card including photograph, or any identification card which includes a number **and** a photograph **and** the bearer's address). "Qualified out-of-State vendors" are vendors that (1) are not registered with New Jersey (2) are not required to be registered with New Jersey and (3) are registered with another state.

If your customer is a qualified out-of-State vendor who does not enter New Jersey to make the purchase, and he asks you to ship your product directly to his customer in New Jersey, you may accept a Multijurisdiction Uniform Sales & Use Tax Certificate published by the Multi-State Tax Commission, or the resale certificate of your customer's home state. This drop shipment transaction is the only time you may accept the exemption certificate of a state other than New Jersey.

**Exempt Organizations.** Many churches, hospitals, volunteer fire departments and other non-profit organizations are exempt from sales tax on items purchased for the exclusive use of the organization. The Division of Taxation issues a **New Jersey Exempt Organization Certificate (Form ST-5)** to those organizations which qualify for exempt status. When you sell your products to these organizations, you must obtain a photocopy of their ST-5 certificate to show why you did not collect sales tax. For more information on exemption certificates, request Tax Topic Bulletin S&U-6, *Sales Tax Exemption Certificates*.

**Lessons.** Fees for lessons and instructions are not taxable. However, if you purchase materials or supplies which you will resell to your students with a separate charge, you should issue a resale certificate to your supplier. You must collect sales tax on those items. If instead you supply these materials to your students as part of the lessons without separately stating a charge for the materials, the fee for the lessons remains entirely nontaxable and you may not claim a resale exemption when purchasing the items.

## Purchases

**Materials.** When you buy materials which will become part of the products that you make and sell, you may issue a **New Jersey Resale Certificate (Form ST-3)** instead of paying sales tax.

**Example:** You design and make your own hand-crafted wooden toys and sell them at a local flea market. Provided you are properly registered with the State, you may issue an ST-3 to your New Jersey supplier when you buy the wood, nails, string, paint and glue that ultimately become part of the toys you sell. You would pay no sales tax on these materials.

**Supplies and Tools.** When you buy supplies and tools you must pay sales tax. Items such as tools, paint brushes, knives, scissors, detergents and disposable paper products for use in your business differ from materials because they do not become part of the finished product.

**Packaging.** Items used to contain, protect, wrap and ship your products to customers are exempt from New Jersey sales tax. To qualify for exemption, the packaging items must be incidental to the delivery of your products and a **New Jersey Exempt Use Certificate (Form ST-4)** must be issued to the supplier of the packaging items.

**Production Equipment.** Some machinery and equipment used directly and primarily in the production of tangible personal property by manufacturing, processing, assembling or refining are also exempt. For example, a lathe used to make hand-crafted toys or a sewing machine used by a clothing manufacturer are types of exempt production equipment. By issuing a **New Jersey Exempt Use Certificate (Form ST-4)** to your supplier, you would pay no sales tax on qualified equipment. For more information on exempt production equipment, request Tax Topic Bulletin S&U-6, *Sales Tax Exemption Certificates*.

## Use Tax

**Out-of-State Purchases.** If you buy supplies or tools (which do not become part of the finished product) outside New Jersey for use in this State, you owe 6% use tax to New Jersey *if* you paid no sales tax on the purchase. If you paid sales tax at a rate lower than 6% and the other state has sales tax reciprocity with New Jersey, you owe use tax on the difference between the amount of sales tax that would have been due in New Jersey and the amount of sales tax you paid in the other state. This provision of the law protects home State vendors from unfair competition. If you purchase materials out-of-State which become part of the product that you make and sell, no use tax is due to New Jersey. For more information on New Jersey use tax, request our publication ANJ-7, *Use Tax in New Jersey*.

**NOTE:** If you buy materials with a resale certificate and decide to use them for personal purposes (and not to resell them), you must remit use tax at 6% of the purchase price to New Jersey.

## Records & Returns

**Records.** It's good business sense to keep accurate records. For example, you are required to keep copies of the exemption certificates that you accept from your customers for at least four years to show why you did not collect sales tax. You should also keep copies of invoices and other records, such as those that verify out-of-State deliveries (shipping receipts, bills of lading, etc.), in case of an audit.

**Sales Tax Returns.** Every three months a **New Jersey Sales and Use Tax Quarterly Return (Form ST-50)** must be filed, even if you have not collected any sales tax in that particular quarter. In addition, if you have a sales tax liability of more than \$500 during the first or second month of the quarter, you must file a **Sales and Use Tax Monthly Remittance (Form ST-51)** for either or both months. Make certain that you take credit on your quarterly return for any monthly remittance(s) you made in months one and/or two of the quarter. For more information request Tax Topic Bulletin S&U-7, *Filing Sales and Use Tax Returns*.

**Seasonal Businesses.** If you intend to sell products only during particular seasons, there is a section on the **Business Registration Application (Form NJ-REG)** for you to list the months in which you will be doing business. You will be required to file sales and use tax returns for the months you are in business in addition to the required quarterly returns.

## For More Information

For more information on arts and crafts businesses and New Jersey sales tax, contact the Division's Customer Service Center at 609-292-6400, e-mail us at [taxation@tax.state.nj.us](mailto:taxation@tax.state.nj.us), or write to:

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Many State tax forms and publications are now available, both by fax and through the World Wide Web. Call NJ TaxFax at 609-826-4500 from your fax machine's phone, or access the Division's home page via your computer's modem at: <http://www.state.nj.us/treasury/taxation/>